

# The Debate on the Developmental State: Evidence from the Indian Software Industry

by Jyoti Saraswati, Department of Politics, Queen Mary, University of London, and IIPPE Working Group Coordinator \*

**The global economic crisis** and the Keynesian response to it have been widely interpreted as signaling the renewed importance of state intervention in the economy. However, stronger state intervention in industry, in contrast to finance, is unlikely to be implemented by the current political and administrative elite in developed countries, whose faith in the unfettered market mechanism and support for 'free' enterprise remain undaunted.

More perplexing, however, is the continued absence of interventionist industrial policies in most of the developing world, where neo-liberalism's ability to foster development is broadly discredited and the role of an interventionist state in promoting industrialisation is more widely appreciated.

This Development Viewpoint maintains that, despite neo-liberalism's recent 'crisis of legitimacy', one major reason that industrial policies have not been more widely applied in developing countries has been the inhibiting effect of the most influential body of recent scholarship on state-led development, namely, that of the Developmental State Paradigm (DSP), which has focused its research on East Asia's experience of late industrialisation.

## The Developmental State Paradigm

DSP literature is derived from seminal works by Alice Amsden (1989) and Robert Wade (1990) on South Korean and Taiwanese development, respectively. However, the concept of a 'developmental state' is only subsequently developed theoretically by scholars such as Evans (1995) and Woo-Cummings (1999).

The DSP regards the specific authoritarian features of East Asian governments as having had a determinant role in promoting rapid development. This literature assumes that in a different political context, such as a democracy, vested interests are much more likely to be able to effectively resist or subvert the kind of developmental policies that drove East Asian late industrialisation.

Thus, the implication is that effective state-led interventions and democracy are often incompatible. The DSP often couches this discussion in terms of the need for what it calls 'state autonomy', namely, the state's independence from, and rejection of, special political and economic interests.

Despite these claims, effective state interventions have occurred within democratic contexts, most significantly in the Indian software industry but also in numerous other sectors across Latin America, South East Asia and the developed world. These cases provide support for maintaining the viability of both democratic and effective state-led development.

The DSP literature has attempted, however, to identify in these cases certain socio-political conditions that it claims amount to 'state

autonomy' and has argued that such conditions have been the decisive factors. Inadvertently, such claims have tended to reinforce, rather than counter, the justification for curtailing popular control over economic policy. In addition, the fixation on such socio-political conditions has partially obscured the practical insights and lessons that could be derived from concretely investigating the actual dynamics of successful state interventions.

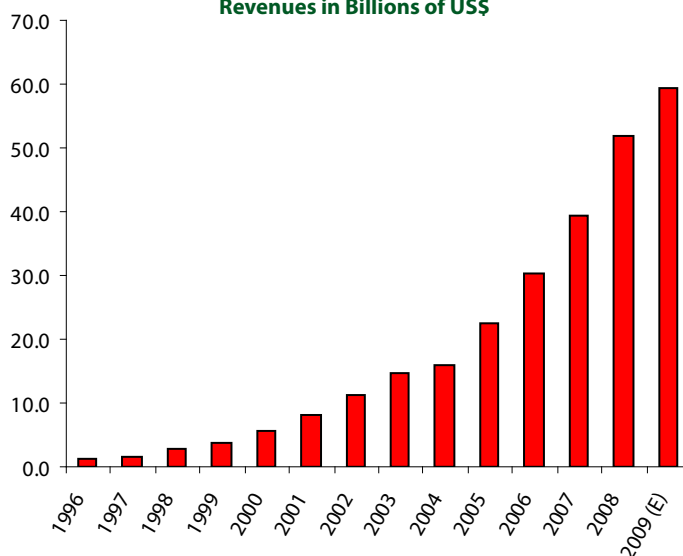
Recent research undertaken outside the Developmental State Paradigm has illustrated that successful state interventions derive not from idealized state autonomy but from the practical implementation of policies on the basis of taking a society's complex of special interests into account and maneuvering among them, instead of remaining independent of them, in order to achieve developmental objectives.

Such findings are best illustrated by the emerging literature on the success of the Indian software industry. This case is the focus of the rest of this Development Viewpoint.

## The Indian Software Industry

The Indian software industry is widely recognised as an economic success, generating revenues of over \$50 billion in 2008 and projected to approach \$60 billion in 2009 (see Figure). Its revenues are expected to reach \$100 billion within the next five years. Despite having been portrayed as a product of Indian economic liberalisation, most serious observers now accept that the Indian state has played a major role in its nurture and growth over the past three decades.

**The Indian Software Industry 1996-2009**  
Revenues in Billions of US\$



Source: National [Indian] Association of Software and Service Companies (NASSCOM) 2009, available at <http://www.nasscom.org>

Though the DSP has tried to point to this sector's success as an example of state autonomy, this interpretation is plagued by some glaring problems. The first is trying to reconcile India's thriving democracy with the supposed requirements of state autonomy, namely, independence from vested economic and political interests.

The DSP has tried to resolve this particular problem by claiming that the Department of Electronics (DoE), which is responsible for implementing IT policy, has been an autonomous agent within the Indian polity that has been able to draw up policies independently of special interests. However, this interpretation runs counter to a large body of concrete evidence.

The second predicament for the DSP is why the DoE, if autonomous and developmental, continued to implement hardware policies until the mid-1990s that ran counter not only to the interests of the software industry but also to computerization of the country as a whole. Such policies represented the successful imposition of local computer manufacturers' interests on the policies of DoE.

Furthermore, the DSP fixation on trying to document autonomy has led researchers to pay less attention to the empirical realities of policymaking and, therefore, the concrete lessons that this experience could actually offer. Recent analysis of the software industry's development, which has been undertaken outside of the DSP literature, illustrates three key features of the state's success in promoting the development of the software industry (Saraswati 2008).

First, there was a long-standing vision within the DoE and more broadly among the scientific elite in India regarding the developmental potential of software exports. This vision was first articulated in a government paper in 1968, and was followed by the implementation of a software export policy in 1972 and then India's first software exports in 1974.

Second, DoE bureaucrats had an in-depth operational understanding of the international and national structure of the software industry and its underlying economic relations. Third, DoE bureaucrats were keenly aware of the political economy of the industry, in particular the political and economic interests that had to be taken into account in implementing government policy.

Hence, DoE bureaucrats were able to initiate policies that not only represented a workable compromise among conflicting interests but also facilitated the developmental goal of promoting software exports. Two examples are particularly illustrative.

First, although the DoE had reflected the interests of local hardware manufacturers by supporting high tariffs on computer imports, it also mitigated the potential damage to local software firms by allowing them to import computers duty-free—in return for achieving specified export targets.

Second, when changes in international telecommunications technology in the 1980s presented the opportunity to boost software exports from India, the DoE successfully lobbied central government to invest in the expensive physical infrastructure required to exploit this opportunity, long before software interests alone had acquired the political clout to do so.

These examples illustrate that the DoE was neither purely responsive to vested interests nor completely independent of them. Rather, having to

deal practically with the intricacies of India's political economy honed the bureaucrats' ability to flexibly take special interests into account in the course of achieving their strategic developmental objectives.

### Implementing Policy

The experience of the Indian software industry is not an anomaly. Emerging research on other successful cases, including studies such as Lee 2002 on earlier East Asian industrialisation (upon which the entire state-led paradigm has been originally based) raises serious questions about the degree of state autonomy that the DSP has attributed to them.

Furthermore, despite their diversity of experience, many of the cases of successful state interventions share important characteristics: the bureaucrats that implemented policies had a clear strategic vision, a sophisticated understanding of the political economy of their industry or sector, and a pragmatic approach of maneuvering through and around special interests in order to achieve their policy objectives.

These findings are significant in several respects. First, they render unnecessary the unobtainable precondition of full state autonomy. The Developmental State Paradigm has exaggerated both the state's ability to completely extricate itself from vested interests in society and the practical necessity of doing so.

Second, the findings illustrate the urgent need for bureaucrats to acquire an in-depth understanding of the political economy of their industry, sector and economy. The deeper this understanding—in particular of the political and economic interests involved—the greater their ability to identify the feasible policy options that can promote their developmental objectives.

In sum, while the research governed by the Developmental State Paradigm continues to contribute valuable evidence that the state can be an effective motor of development, its promotion of the unnecessary requirement of full-blown state autonomy has led, paradoxically, to its diminishing influence as a viable alternative to neo-liberalism, even during the latter's 'crisis of legitimacy'.

The experience of the Indian software industry has illustrated that successful state interventions are usually based, not on an unrealizable state autonomy, but on the practical capabilities of state bureaucrats who can take full account of the political economy context for their policies and maneuver tactically within a complex of vested interests in order to reach their strategic developmental objectives.

*\* Jyoti Saraswati is Coordinator of the Working Group on the Developmental State for the International Initiative for Promoting Political Economy ([www.iippe.org](http://www.iippe.org)).*

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